

Message Text

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E.O. 11652: GDS
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SUBJECT: SOVIET ALUMINUM PROJECT: ALCOA ENTERS THE LISTS

USDOC FOR BEWT/DOQWNEY AND BEWT/TDAD/PLANAGAN

REF: (A) USDOC 10482 (NOTAL); (B) MOSCOW 8444

1. SUMMARY - AT SOVIET INITIATIVE HIGH-LEVEL ALCOA TEAM HELD DISCUSSIONS HERE JULY 6-25 ON POSSIBLE PARTICIPATION BY COMPANY IN BLACK SEA/KRASHOYARSK ALUMINUM PROJECT. ALTHOUGH AWARE OF PECHINEY AND KAISER NEGOTIAIONS, ALCOA EXECUTIVE LEFT BELIEVING THAT MOST LIKELY ALTERNATIVE TO ALCOA PARTICIPATION WOULD BE PURELY SOVIET PROJECT WITHOUT FOREIGN INVOLVEMENT. SOVIETS REPORTEDLY ACCEPTED IN PRINCIPLE ALCOA'S DEMAND FOR PAYMENT IN CASH. EMBASSY FEARS SOVIETS USING ALCOA DISCUSSIONS AS BARGAINING TOOL FOR PECHINEY NEGOTIATIONS. ACTION REQUESTED: INFO ON STATUS OF KAISER NEGOTIATIONS.
END SUMMARY

2. ALCOA TEAM HEADED BY VICE PRESIDENTS R.C. HATFIELD AND H.F. ROBEY, JR., MET WITH AMBASSADOR JULY 25 TO REPORT ON THEIR 11-DAY VISIT TO DISCUSS POSSIBLE PARTICIPATION IN BLACK SEA/
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KRASNOYARSK ALUMINUM PROJECT (DESCRIBED REF B). EXECUTIVES

EXPLAINED SOVIETS HAD ATTEMPTED TO INTEREST ALCOA IN ALUMINUM DEVELOPMENT PROJECTS IN PAST, BUT SOVIET INSISTENCE ON COMPENSATION BASIS HAD TURNED OFF COMPANY'S INTEREST. AROUND MAY 1 SOVIETS APPROACHED ALCOA THROUGH CHASE WITH INVITATION TO PREPARE PRELIMINARY PROPOSAL (BASED ON US CONDITIONS) FOR BLACK SEA KRASNOYARSK PROJECT ON UNDERSTANDING TERMS WOULD BE CASH. COMPANY ACCEPTED AND RECEIVED INVITATION TO VISIT MOSCOW EVEN BEFORE PROPOSAL COMPLETED.

3. TEAM MET WITH SOVIET NEGOTIATORS HEADED BY DEPUTY MINISTERS V.N. SUSHKOV (FOREIGN TRADE) AND N.T. GLUSHKOV (NON-FERROUS METALLURGY) IN TWO SESSIONS SEPARATED BY TOUR OF BRATSK ALUMINUM PLANT AND OTHER SIBERIAN POINTS, LENILRES'S VAMI INSTITUTE AND PIKALEVO ALUMINA PLANT (EAST OF LENINGRAD). THEY WERE REPORTEDLY FIRST AMERICAN VISITORS AT PIKALEVO, WHERE SOVIETS UNSUCCESSFULLY ATTEMPTED TO SUGGEST GHQBQJFER# PURCHASING TECHNOLOGY USED THERE TO PRODUCE ALUMINA FROM BY-PRODUCT OF FERTILIZER MANUFACTURING PROCESS. BOTH ALCOA EXECUTIVES AND ACCOMPANYING CONSULTANTS FROM CHASE WORLD INFORMATION CORP. CONSIDERABLY IMPRESSED BY RED CARPET TREATMENT GROUP RECEIVED.

5. ACCORDING TO ALCOA EXECUTIVES, FOLLOWING OUTLINE FOR COMPANY'S PARTICIPATION EMERGED FROM DISCUSSIONS. ALUMINA PLANT WOULD BE LOCATED AT NIKOLAYEV ON BLACK SEA WITH ALUMINUM SMELTER AND ROLLING MILL SOUTH OF KRASNOYARSK AT SAYANO-SHUSHENSKOYE NEAR HYDRO-ELECTRIC PROJECT UNDER CONSTRUCTION THERE. ALCOA WOULD SUPPLY EQUIPMENT, TECHNOLOGY AND KNOW-HOW FOR PROJECT ON CASH BASIS ALTHOUGH MOST EQUIPMENT WOULD, OF COURSE, BE SUBCONTRACTED TO OTHER MANUFACTURERS. AT SOVIET INSISTENCE COMPANY WOULD MAKE LONG-TERM ALUMINUM PURCHASE COMMITMENT AT SOME DISCOUNTED PRICE TO BE DETERMINED. DESPITE THIS LINKAGE COMPANY EXECUTIVE STRESSED THAT TWO DEALS WOULD BE FINANCIALLY INDEPENDENT. PRINCIPAL UNCERTAINTY IS DEGREE SOVIETS WILL WISH TO DESIGN AND SUPPLY PROJECT FROM OWN RESOURCES.

5. TEAM AWARE OF PECHINEY AND KAISER NEGOTIATIONS FOR PROJECT BUT BELIEVE MOST LIKELY ALTERNATIVE TO ALCOA ROLE WOULD BE PURELY SOVIET PROJECT WITHOUT FOREIGN INVOLVEMENT. EXECUTIVES CONFIDENTIAL

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HAD TOUCHED BASE WITH KAISER BEFORE LEAVING US AND UNDERSTOOD THAT KAISER TEAM HAD RETURNED HOME PREMATURELY AFTER UNSUCCESSFUL TALKS IN JUNE (CF. REF B). THEY ALSO GAINED IMPRESSION FROM SOVIETS THAT PECHINEY HAD LOST FAVOR FOR SOME UNSTATED REASON. BIGGEST THREAT IN THEIR VIEW IS THAT VAMI ENGINEERS WILL CONVINCE MOSCOW THAT THEY SHOULD RECEIVE RESPONSIBILITY FOR WHOLE PROJECT.

6. IN DISCUSSION WITH HATFIELD AND OTHER TEAM MEMBERS, COMOFF RAISED POSSIBILITY THAT SOVIETS USING ALCOA AS LEVER TO EXTRACT MORE FAVORABLE TERMS FROM PECHINEY AND CITED FRENCH FIRM'S LONG ASSOCIATION WITH BLACK SEA/KRASNOYARSK PROJECT, ALLEGED BREZHNEV COMMITMENT TO GISCARD (MOSCOW 2778), AVAILABILITY OF FRENCH CREDITS, AND RECENT TASS ACKNOWLEDGEMENT THAT FRENCH ORGANIZATIONS "INTEND TO COOPERATE" IN MAJOR ALUMINUM PROJECT (MOSCOW 9757). HATFIELD RECOGNIZED THIS POSSIBILITY AND SAID ALCOA WOULD GIVE IT CONSIDERATION BEFORE EMBARKING ON FULL TECHNICAL AND FINANCIAL PROPOSAL FOR PROJECT. WHICH WOULD COST AROUND ONE HUNDRED THOUSAND DOLLARS. HOWEVER, IT SEEMS LIKELY COMPANY WILL TAKE THIS STEP AS TEAM MEMBERS APPEARED CONFIDENT OF GENUINE SOVIET INTEREST.

7. COMMENT: THERE ARE STRONGER REASONS TO BELIEVE SOVIETS ARE DIDDLING ALCOA, BUT THEY COULD NOT BE DISCUSSED WITHOUT PROMISING KAISER. FIRST, APPROACH TO KAISER FOR THIS PROJECT THROUGH EMBASSY AND US-USSR TRADE AND ECONOMIC COUNCIL (MOSCOW 5783). SECOND, COMPARISON OF SEMI-ASSURANCES TO ALCOA WITH STATEMENTS TO EDGAR KAISER ("NO, IT'S THE KAISER PROJECT" REF B) LEADS ONE TO SUSPECT SUSHKOV TELLS THAT TO ALL THE GIRLS. FINALLY AND MOST IMPORTANT, IT IS VERY HARD TO BELIEVE THAT SOVIETS -- ESPECIALLY AT THIS TIME -- WOULD DO CASH DEAL WITH ALCOA WHEN FRENCH CREDITS AVAILABLE FROM PECHINEY AND KAISER WILLING TO ACCEPT PAYMENT IN PRODUCT.

8. EMBASSY WILL ATTEMPT TO EXPLORE SOVIET INTENTIONS MORE FULLY WHEN CONTACTS RETURN FROM VACATION IN EARLY AUGUST. IN MEANTIME IT WOULD BE HELPFUL TO RECEIVE UP-TO-DATE REPORT ON STATUS OF KAISER'S CONTACTS.

STOESSEL

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